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TAGS: EINV EFIN ETRD ELAB OPIC KTDB USTR PGOV IT
SUBJECT: INVESTMENT CLIMATE STATEMENT 2008 - ITALY

REF: A) 07 STATE 158802, B) 07 ROME 147, C) 07 ROME 149

¶1. SUMMARY: While the Government of Italy (GOI) continues to court foreign investors, economic reforms or other steps to ensure a more welcoming investment climate have been modest. Recent positive developments include passage of a more efficient bankruptcy law and the incorporation of the EU Takeover Directive into Italian law.

¶2. Despite public statements and visits to the U.S. of high level government officials to encourage American investment in Italy, historical stumbling blocks to investment remain unaddressed. The inefficient delivery of public services, a slow judicial system, and bureaucratic red tape all discourage Foreign Direct Investment (FDI). Although Prime Minister Prodi's government has worked to meet EU demands that Italy put its fiscal house in order, the government has refrained from undertaking wide-ranging economic reform, choosing instead to focus on limited liberalization measures in selected sectors.

¶3. Italy's economy, the sixth largest market economy in the world, is fully diversified. Small- and medium-sized firms dominate the Italian economy. Family-owned companies account for 93 percent all Italian companies and 85 percent of GDP. In the U.S., family-owned companies represent 96 percent of companies, but account for only 40 percent of GDP. Germany, France, and the U.S. remain Italy's most important export markets. Industrial activity is concentrated in the north -- one of the most industrialized and prosperous areas in Europe. By contrast, the center and the south in particular are less developed. Unemployment in some areas is three times that of the north and per capita incomes are substantially lower. End summary.

OPENNESS TO FOREIGN INVESTMENT

¶4. Foreign direct investment in Italy is generally welcomed and encouraged. The current government, headed by Prime Minister Romano Prodi, offers strong rhetorical support for foreign investment and trimming bureaucratic obstacles to economic activity, but has been able to accomplish little in the way of substantive reform due to the fragility of the eight party center-left coalition. For example, members of Prodi's coalition prevented a 25 billion euro merger between the Spanish company Abertis and an Italian toll-road operator. GOI opposition to the so-called "Abertis-Autostrade" deal illustrates an unwillingness to allow foreign investment in large, high-profile Italian companies. Similarly, in April 2007, AT&T withdrew its bid for Telecom Italia, Italy's telecom company. AT&T did not specify the reason for its withdrawal, but may have been dissuaded by political opposition to the sale of Telecom Italian to a foreign company. Although Prime Minister Romano Prodi said he would not block the sale, he and several of his ministers said they

hoped an "Italian solution" could be found. AT&T's decision reflects a widespread opinion that it is becoming harder to do business in Italy. GOI efforts to sell its 49.9 percent share of Alitalia, Italian flag carrier, have also been hampered by concerns about regulatory transparency, hostile labor unions, and the possibility of government intervention. In this case as well, an American-led group walked away when the opacity of the process was revealed and labor and political hostility emerged.

¶5. As an EU Member State, Italy is bound by EU treaties and legislation, some of which have an impact on business investment. As specified under the right of establishment set forth in the EU treaty (1957 Treaty of Rome), Italy provides national treatment to foreign investors established in Italy or in another EU member state, except in a few instances. Exceptions include limited access to government subsidies for the film industry, added capital requirements for banks domiciled in non-EU member countries, and restrictions on non-EU-based airlines operating domestic routes. Italy also has restrictions in the shipping sector.

¶6. The GOI does have the authority to restrict foreign investment in some cases. The government can block mergers involving foreign firms for "reasons essential to the national economy" or if the home government of the foreign firm applies discriminatory measures against Italian firms. Industrial sectors such as defense and aircraft manufacturing are either closely regulated or are off-limits to foreign investors. EU and Italian anti-trust laws give EU and Italian authorities the right to review mergers and acquisitions over a certain financial threshold.

¶7. Foreign investors are not prevented from investing in the privatization of government-owned companies, except in the defense sector. Privatization strategies often entail the GOI retaining a

"golden share" (a government stake with controlling authority) in the company or establishing a core group of Italian of shareholders who agree to keep their shares for a minimum period. Italy is the only EU member country to keep wide-ranging "golden share" regimes for privatized companies. According to EU data, there are 20 EU-based companies in which Member States hold a golden share -- five of these are Italian (Eni, Enel, Finmeccanica, Terna, and Telecom Italia).

¶8. The Italian Trade Commission (ICE) reported in January 2007 that 7,200 foreign companies operate in Italy, employing almost one million workers. According to ICE, the stock of foreign investment in Italy equals 12 percent of GDP, far less than many EU nations. Approximately 77 percent of foreign companies operating in Italy are located in the north, with the Lombardy Region alone hosting 46 percent. The ICE study cited as key obstacles to foreign investment: labor taxes, lack of labor flexibility, red tape, and high corporate taxes.

¶9. The World Economic Forum's 2007-2008 World Competitive Survey ranked Italy 46th among the 122 countries surveyed; this is a slight improvement from Italy's ranking in 2006 of 47th, but does not reflect a substantial improvement in terms of performance. Italy's weak points are macroeconomic fragility (related to the level of public debt), inefficiency in the labor market, lack of infrastructure, and institutional and bureaucratic inefficiencies. Italy's strong points are the quality of health care and the primary education system, the diffusion of technologies, and the level of sophistication of the internal systems of Italian companies. Press reports also cite difficulties in obtaining Italian visas to work in certain sectors (the fashion industry, for example).

¶10. A measure passed as part of the 2008 budget will allow Italian consumers to file class action lawsuits against corporations. The measure goes into force in July 2008. Some observers predict class action lawsuits will become a powerful tool for consumers' rights, pointing to planned class action suits against a water company for water shortages and another against the President of the Campania Region for failure to resolve the region's waste emergency. The Italian industrialist's association, Confindustria, opposed the legislation, arguing it will threaten the competitiveness of Italian

manufacturing. Some observers have warned this legislation may have unexpected consequences, but at this point it is too early to gauge its impact.

CONVERSION AND TRANSFER POLICIES

¶11. In accordance with EU directives, Italy has no foreign exchange controls. There are no restrictions on currency transfers, only reporting requirements. Banks are required to report any transaction over 5,000 euro (USD7,500) due to money laundering and terrorism financing concerns. Profits, transfers, payments, and currency transfers may be freely repatriated. Residents and non-residents may hold foreign exchange accounts.

EXPROPRIATION AND COMPENSATION

¶12. The Italian constitution permits expropriation of private property for "public purposes," defined as essential services or indispensable for the national economy. In fact, compensation is guaranteed and must adequately compensate the proprietor for losses. There are a few long-standing disputes in Italy involving U.S. citizens who assert that municipal governments unjustly expropriated their real property or inadequately compensated them. These disputes do not reflect any GOI discrimination against U.S. investments, companies, or representatives in any specific sector of activity.

DISPUTE SETTLEMENT

¶13. Italy's inefficient judicial system is frequently cited as a deterrent to foreign Investors. Civil trials average seven years in length. U.S. investors in Italy can choose among different means of dispute resolution. The method chosen should be specifically set forth in a contract.

¶14. Though notoriously slow, the Italian legal system is consistent with generally recognized principles of international law, with

provisions for enforcing property and contractual rights. Italy has a written and consistently applied commercial and bankruptcy law. While the Italian judiciary is considered independent of the government, Italian judges may engage in political partisanship. Italian courts accept and enforce foreign judgments only upon request.

¶15. At the end 2007, the GOI approved new bankruptcy regulations which went into effect on January, 1, 2008. The new regulations -- analogous to U.S. Chapter 11 restructuring -- provide more flexibility between parties to reach a solution before declaring bankruptcy. The judicial role in bankruptcy procedures has been drastically limited to simplify and speed up the process. The new regulations change the requirements for declaring a company insolvent, and they encourage corporate reorganization or debt restructuring as an alternative to liquidation.

¶16. Italy is a member of the World Bank's International Center for the Settlement of Investment Disputes (ICSID). Italy has signed and ratified the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States, and is a signatory of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

PERFORMANCE REQUIREMENTS/INCENTIVES

¶17. The GOI is in compliance with WTO Trade-Related Investment Measures (TRIMS) obligations. Foreign investors face specific performance requirements only in the telecommunications sector.

However, this has not deterred foreign investment in telecommunications. For example, in 2005, Weather Investments, owned by an Egyptian financier, bought Wind, Italy's second largest telecommunications company; Vodafone, Italy's second largest mobile operator, is also foreign-controlled.

¶18. The GOI offers incentives to encourage private sector investment in economically depressed regions, particularly southern Italy. (For more details, please visit the website: www.InvestinItaly.com.) The Ministry of Universities and Research has identified, funded, and signed Framework Program Agreements with eleven "Technology Districts" and public-private joint laboratories focused on strategic sectors. Technology Districts, created to facilitate cooperation between public and private researchers and venture capitalists, support the research and development of key technologies, strengthen industrial research activities, and promote innovative behavior in small- and medium-sized enterprises.

¶19. The Italian tax system does not discriminate between foreign and domestic investors. The 2008 budget reformed the structure of the tax system (Legislative Decree No. 344/2003), reducing corporate income tax (IRES) rates by 5.5 nominal points from 33 to 27.5 percent, and trimming the regional business tax (IRAP) from 4.35 to 3.9 percent. These tax cuts are in response to increased competition for investment, particularly as the enlargement of the EU to 27 members brought Italy into competition with low cost, low tax East European states. In addition, Germany's decision to cut its corporate tax rates by ten points made Italy's corporate tax rate the highest in the EU.

¶20. The GOI has tried to off-set the effect of corporate tax cuts on public finances by introducing compensatory measures. They include:

-- setting new limits to the deductibility of interest;

-- abolishing accelerated depreciation;

-- revising the tax treatment of consolidated reporting; and

-- increased enforcement of existing tax laws (cracking down on tax evasion).

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

¶21. There is no limitation in the Italian constitution or civil law on the right to private ownership and establishment.

PROTECTION OF PROPERTY RIGHTS

¶22. Enforcement of Intellectual Property Rights (IPR) remains a serious problem in Italy. It does not meet standards of other developed Western European countries in IPR enforcement. Relatively few IPR cases are brought to trial, and judges are generally reluctant to sentence offenders to prison. The Customs Police actively seizes pirated and counterfeit goods along the border. Italy's national financial police force, the Guardia di Finanza, has grown more effective in IPR enforcement. However, many local governments do little to stop the sale of pirated and counterfeit goods by street vendors.

¶23. In April 2005, Italy enacted a new law empowering police to fine consumers of pirated and counterfeit items up to 10,000 euro. In 2006, several municipalities, such as Florence, began to undertake aggressive publicity campaigns to alert Italians and foreign tourists of the new law.

¶24. Italy is a member of the Paris Union International Convention for the Protection of Industrial Property (patents and trademarks) to which the United States and about 85 other countries adhere.

U.S. citizens generally receive national treatment in acquiring and maintaining patent and trademark protection in Italy. After filing a patent application in the United States, a U.S. citizen is entitled to a 12-month period within which to file a corresponding application in Italy and receive rights of priority. Patents are granted for 20 years from the effective filing date of application and are transferable. U.S. authors can obtain copyright protection in Italy for their work first copyrighted in the United States, merely by placing on the work, their name, date of first publication, and the symbol (c).

¶25. In 2000, the Italian Parliament enacted a long-awaited "anti-piracy" law, providing for higher criminal penalties, including prison sentences of up to four years, for copyright (IPR) violations. Largely because of the enactment of this law (thought to be among the best in the EU), Italy has since been removed from the U.S. Trade Representatives Special 301 IPR "Priority Watch List." Italy remains on the Special 301 Watch List, however, because of its continuing failure to enforce this and other IPR protection laws.

¶26. Copyrighted works sold in Italy generally must bear a sticker issued by SIAE, a royalty collection agency operating under authority from the Ministry of Culture. While the music and film industries are largely satisfied with the stickering system, software industry associations have complained the system remains overly burdensome and fails to provide adequate protection from piracy. In January 2001, the Italian government approved exemptions for software purchased for business use from the SIAE sticker requirement.

¶27. In 2005, Italy's Parliament passed legislation that some copyright industry associations believe weakens Italy's IPR legal framework. Italy's Internet piracy statute was revised to reduce criminal sanctions for on-line piracy conducted without a profit motive. While illegal file sharing technically remains a crime, only those who engage in piracy for monetary gain now face jail time, while all others face administrative fines only. In 2005, Parliament passed the "ex-Cirielli" law which shortened the period after which criminal cases pending trial are automatically dismissed. Separately, a broad amnesty was passed in 2006, which IP industries believe voided many sentences and criminal prosecutions against IPR pirates.

TRANSPARENCY OF THE REGULATORY SYSTEM

¶28. In an effort to improve accountability and competition in the wake of the 2003-04 collapse of the dairy firm Parmalat and the scandal which ensued, Italy's Parliament approved a law in December 2005 to overhaul the Bank of Italy and improve corporate governance and oversight. Italy also is subject to single market directives mandated by the EU, which are intended to harmonize regulatory regimes among EU countries.

¶29. The 2008 "Index of Economic Freedom," published by the Wall Street Journal and Heritage Foundation, ranked Italy as having "the world's 64th freest economy." The study highlighted government interference in the economy, corruption, and a slow court system as contributing to Italy's ranking below less developed nations such as Uganda, Belize, and Jamaica.

¶30. According to a 2004 World Bank study, an entrepreneur wishing to start a business in Italy must follow 16 procedures, spend an average of 62 days, and pay around USD 5,000 in fees. The study found that it costs more to open a business in Italy than anywhere else in Europe, with the exceptions of Greece and Austria. Government efforts to enable entrepreneurs to "open a business in a day" have not been successful.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT
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¶31. Financial resources flow relatively freely in Italian financial markets and credit is allocated on market terms. Foreign participation in Italian capital markets is not restricted; foreign investors are able to get credit on local markets and have access to a variety of credit instruments. The Italian stock exchange ("Borsa Italiana") has fewer than 300 companies. In recent years, Borsa Italiana established two new segments of the market devoted to smaller companies: "STAR" and "Mercato Expandi," launched in 2001 and 2003, respectively. In 2007, the Borsa merged with the London Stock Exchange. There is some expectation that governance standards of the Milan market will improve as a result.

¶32. Financial services companies incorporated in another EU member state may offer investment services in Italy without establishing a local presence. U.S. and other firms based in non-EU member states may operate under authorization from Italian Companies and Stock Exchange Commission (CONSOB), the oversight authority for securities markets, corporate governance, and company audits.

¶33. Previously, Italian government bonds absorbed a large share of available domestic investment. This share has declined as interest rates on government bonds dropped during Italy's preparation for the EU economic and monetary union. Even with lower yields, Italian government bonds are considered a safe haven for domestic investors burned by defaults on Argentinean, as well as Parmalat and Cirio bonds.

BANKING

¶34. The banking sector has undergone significant consolidation in the last decade, with about 60 percent of total Italian banking assets involved. Following the appointment of Marco Draghi as Bank of Italy Governor, Mario Draghi, the process of consolidation picked up sharply. The top five banks' market share is larger than in Germany, but smaller than in France. Two major mergers have been implemented in 2007 involving Intesa and San Paolo-IMI, Unicredit Group and Capitalia. These transactions created Italy's two largest banking groups. These groups are now major players in the European market. Other transactions involved cooperative banks. In April 2007, Banche Popolari Unite and Banca Lombarda e Piemontese created a new cooperative bank group named Unione di Banche Italiane (UBI Banca), Italy's fifth largest bank. In July 2007, the merger between Banco Popolare di Verona e Novara and Banca Popolare Italiana created Italy's largest cooperative banking group, Banco Popolare. In November 2007, Monte dei Paschi di Siena (MPS) bought Banca Antonveneta from Spain's Banco Santander. MPS was the last of the large Italian banks not to merge or be acquired. This purchase, in a rapidly consolidating market, will make the Tuscan-based bank Italy's third largest lender with around 3,000 branches and a strong presence in the prosperous north-east of Italy. Currently, the country's largest banks are: Unicredit Group, Intesa San Paolo, Monte dei Paschi di Siena, Banco Popolare, and UBI Banca. The total assets of Italy's five largest banks are equal to 53.5 percent of total banking assets.

¶35. Efficiencies obtained from mergers and the entry of foreign banks are expected to have an impact on retail banking fees, currently among the highest in Europe. Bank of Italy Governor Draghi has stated a clear preference for increased competition in Italian credit and banking markets and has urged Italian banks to become more competitive by cutting high transaction charges. Draghi believes that domestic banking consolidation has been too slow and that Italian banks should proactively merge among themselves to be more competitive against foreign banks. Draghi has publicly stated that, while "patriotism is a virtue, it must be practiced under set rules, which these days are European, and not protectionist."

¶36. Non-bank companies (either Italian or foreign) are not allowed to acquire more than 15 percent of a bank's capital. Complex cross-shareholding has often been used to fight off takeover attempts in the financial sector. The presence of foreign

intermediaries on the Italian market expanded in the last several

years. In late 2005, the Dutch Bank ABN-AMRO obtained complete control of an Italian medium-sized bank, Banca Antonveneta, recently sold to Monte Dei Paschi di Siena; while in May 2006, the French banking group BNP Paribas acquired full control of Banca Nazionale del Lavoro, one of Italy's primary banks. Credit Agricole acquired a controlling interest in Cassa di Risparmio di Firenze, di Parma e Piacenza and Banca Popolare Friuladria.

POLITICAL VIOLENCE

¶37. Political violence is a low threat to foreign investments in Italy.

CORRUPTION

¶38. Italy ratified the 1997 OECD Convention on Combating Bribery in September 2000. Italy has signed, but not ratified, the United Nations Convention Against Corruption, which was adopted in 2003 and came into force on December 14, 2005. Anecdotal evidence strongly suggests that corruption remains a serious problem, especially in southern Italy. For example, in the city of Taranto, corruption and the serious mismanagement of public funds resulted in the city's "bankruptcy," with 700 million euro of debt.

¶39. Transparency International's Corruption Perceptions Index 2007 ranked Italy the 41st least corrupt country in the world, up from its 2006 ranking of 45th. Italy is mentioned among the countries that have significantly improved their rating since the 2006 index. Nevertheless, it trails all West European states with the exception of Greece.

¶40. Corruption is punishable under Italian law. In January 2003, Italy enacted a law creating a High Commissioner to prevent and combat bribery within public administration. As in all judicial processes, much discretion regarding punishment is left to the presiding judge. Most corruption in the recent past has involved government procurement or bribes to tax authorities. Bribes are not considered deductible business expenses under Italian tax law.

¶41. Organized crime is present throughout Italy, but is concentrated in four regions of the south (Sicily, Calabria, Campania, and Puglia). In September 2007, the Italian confederation of trade, tourism, and service company operators released a report estimating that organized crime (Mafia, Camorra, 'Ndrangheta and Sacra Corona Unita) is Italy's largest "company" with sales of 90 billion euro, or seven percent of GDP. Organized crime is involved in racketeering, loan sharking, drug smuggling, and prostitution.

¶42. Researchers estimate Italy's underground economy may be equivalent to between 17 and 27 percent of GDP. A great deal of economic activity is kept "underground" to avoid taxation.

BILATERAL INVESTMENT AGREEMENTS

¶43. As of December 2007, Italy has bilateral investment agreements with the following countries:

Albania
Algeria
Angola (signed, not enforced)
Argentina
Armenia
Azerbaijan
Bangladesh
Barbados
Belarus
Belize (signed, not enforced)
Bolivia
Bosnia and Herzegovina
Brazil (signed, not enforced)
Bulgaria
Cape Verde (signed, not enforced)
Chad
Chile

China
Colombia (signed, not enforced)
Congo
Cote d'Ivoire (signed, not enforced)
Croatia

Cuba
Czech Republic
Democratic Republic of Congo (signed, not enforced)
Dominican Republic (signed, not enforced)
Ecuador (signed, not enforced)
Egypt
Eritrea
Estonia
Ethiopia
Gabon
Georgia
Ghana (signed, not enforced)
Guatemala (signed, not enforced)
Guinea
Hong Kong, China
Hungary
India
Indonesia
Iran, Islamic Republic of
Jamaica
Jordan
Kazakhstan
Kenya
Korea, DPR of (signed, not enforced)
Korea, Republic of
Kuwait
Latvia
Lebanon
Libya
Lithuania
Macedonia, Republic of
Malawi (signed, not enforced)
Malaysia
Malta
Mauritania (signed, not enforced)
Mexico
Moldova, Republic of
Mongolia
Morocco
Mozambique
Nicaragua
Nigeria
Oman
Pakistan
Paraguay (signed, not enforced)
Peru
Philippines
Poland
Qatar
Romania
Russian Federation
Saudi Arabia
Slovakia
Slovenia
South Africa
Sri Lanka
Sudan (signed, not enforced)
Syrian Arab Republic
Tunisia
Turkey
Uganda
Ukraine
United Arab Emirates
Tanzania, United Republic of
Uruguay
Uzbekistan
Venezuela
Vietnam
Yemen (signed, not enforced)

Zambia (signed, not enforced)
Zimbabwe (signed, not enforced)

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

¶44. The U.S. Overseas Private Investment Corporation (OPIC) does not operate in Italy. However, in March 2003, OPIC signed a Memorandum of Understanding with its Italian counterpart, SIMEST (Societa Italiana per le Imprese all'Estero), to expand cooperation, particularly on projects in third countries. Italy, through its Export Credit Agency, SACE, has signed a memorandum of understanding with the World Bank's Multilateral Investment Guarantee Agency (MIGA).

LABOR

¶45. Unemployment in Italy is moderate at 5.6 percent (third quarter 2007), below the average of 7.3 percent among euro zone countries (September 2007). Italy's unemployment rate is currently at the lowest level since 1992. This reflects liberalized temporary labor regulations, legalization of some underground employment, and Italy's slight economic recovery. Traditional regional disparities remain unchanged, with the southern third of the country posting a 10.3 percent unemployment rate -- compared to 3.3 percent in northern and 4.7 percent in central Italy. Despite these differences, internal migration within Italy remains modest. Labor shortages in the North are often filled by unskilled and semi-skilled immigrants from Eastern Europe or North Africa.

¶46. Italy's labor force is fairly well-educated. According to a 2006 national survey, 9.7 percent of people aged 15 and older held university degrees and 42 percent completed upper secondary education. According to the OECD 2005 Economic Review of Italy, the private internal rate of return -- which measures incentives to invest in human capital -- is much lower for higher education than the OECD average, indicating there may be limited incentive for Italians to pursue higher education. This is due to the fact that persons with higher educations do not earn substantially more than persons with upper secondary educations. Therefore, firms interested in investing in Italy may have difficulties finding highly specialized Italian employees.

¶47. There are legal obstacles to hiring and firing workers. Companies may bring in a non-EU employee only after the government-run employment office has certified that no qualified, unemployed Italian is available to fill the position. Work visas are subject to annual quotas, although intra-company transfers are exempt from quota limitations.

¶48. In recent years, the Italian labor market has become somewhat more flexible. A series of legal reforms has encouraged the hiring of part-time employees by reducing employer social security contributions for these workers. New laws have also created opportunities for outsourcing, job-sharing, and use of private employment services. New types of contracts now exist that allow for reduced labor costs. However, high costs and legal obstacles associated with laying-off workers still remain a disincentive to adding employees.

¶49. Italy is an International Labor Organization (ILO) member country. Terms and conditions of employment are periodically fixed by collective labor agreements in different professions. Most Italian unions are grouped into four major national confederations: the General Italian Confederation of Labor (CGIL), the Italian Confederation of Workers' Unions (CISL), the Italian Union of Labor (UIL), and the General Union of Labor (UGL). The first three organizations are affiliated with the International Confederation of Free Trade Unions (ICFTU), while the UGL has been associated with the World Confederation of Labor (WCL). The confederations negotiate national level collective bargaining agreements with employer associations, which are binding on all employers in a sector or industry.

FOREIGN TRADE ZONES/FREE PORTS

¶50. There are two free trade zones in Italy, located in Trieste and Venice, both in the northeast. Goods of foreign origin may be brought in without payment of taxes or duties, as long as the material is to be used in the production or assembly of a product that will be exported. The free-trade zone law also allows a company of any nationality to employ workers of the same nationality under that country's labor laws and social security systems.

Benefits of the free-trade zones include:

-- Customs duties deferred for 180 days from the time the goods leave the free trade zone to enter another EU country.

-- The goods may undergo transformation free of any customs restraints.

-- Absolute exemption from any duties on products coming from a third country.

U.S. Companies in Italy

¶51. The largest U.S. companies in Italy, based on number of employees, are: IBM, General Electric, Pfizer, Whirlpool, Electronic Data Systems (EDS), Accenture, Lear, and United Technologies.

FOREIGN DIRECT INVESTMENT STATISTICS

¶52. Italy lags behind many of its fellow EU member states in attracting and maintaining foreign investment. According to Bank of Italy figures, net foreign investment into Italy in 2006 totaled USD 29.9 billion (equal to 1.0 percent of GDP), well below its euro zone counterparts. Notably, inflows were exceeded by outflows - USD 34.1 billion in 2006.

Table 1: Italian Foreign Direct Investment Inflows by Economic Sector (Net) 2003-2006 (USD Millions) (1) (*)

	2003	2004	2005	2006
Agriculture	108.5	234.8	511.8	-662.1
Energy	1993.8	4463.3	10057.1	4104.3
Industry of which:	5933.1	2016.2	6996.3	7549.0
Machine	2023.9	3690.7	1314.3	4871.9
Chemical	1066.8	-3535.4	441.0	168.3
Food	2483.5	362.7	2388.8	1839.2
Textiles	353.4	513.0	544.1	810.3
Mineral/Metal	468.5	687.0	1315.5	143.2
Other	-463.0	298.2	992.6	-283.9
Building and Public Works	363.0	125.7	205.0	283.9
Services of which:	6634.2	9576.4	925.5	18639.5
Banking/ Insurance	2972.2	5749.1	1207.5	8810.3
Trade	410.4	36.0	653.4	3570.4
Transportation/ Communication	-412.6	516.8	-11468.3	2027.6
Other Services (Not For Sale)	3664.4	3274.5	10532.9	4231.2
T O T A L	15031.9	16416.2	18695.7	29914.6

Table 2: Italian Direct Investment Outflows by Economic Sector (Net) 2003-2006 (USD Millions) (1) (*)

	2003	2004	2005	2006
Agriculture	38.0	21.1	70.8	42.7
Energy	3450.7	5336.7	2675.8	3775.1
Industry	1332.9	7573.9	7629.8	13501.3
of which:				
Machine	-1393.3	4234.8	3684.5	9218.6
Chemical	721.2	1730.4	1730.4	2267.6
Food	295.2	151.6	206.2	623.1
Textiles	336.6	287.0	411.2	275.1
Mineral/Metal	274.0	246.0	600.0	-224.9
Other	1099.2	924.1	997.5	1341.8
Building And Public Works	223.6	85.7	159.0	-113.1
Services	1935.7	5037.3	7444.7	16881.9
of which:				
Banking/ Insurance	5492.6	2636.0	5164.6	10797.7
Trade	485.3	1060.9	923.0	1075.4
Transportation/ Communication	-8217.6	-923.0	110.6	2069.1
Other Services (Not For Sale)	4175.4	2263.4	1264.6	2939.7
T O T A L	6980.9	18054.7	17980.1	34087.9

Table 3a: Stock of Foreign Direct Investment in Italy by Major Investors; Year End 2003-2006 (USD Millions) (1)

	2003	2004	2005	2006
United States	19458.1	22448.3	21451.0	25826.1
EU (3)	114010.0	140651.5	145179.5	185773.4
of which:				
France	21294.1	24608.6	25637.5	37040.8
Netherlands	26882.4	39009.4	40079.1	54304.3
United Kingdom	22266.6	26613.9	25434.5	30461.1
Germany	13797.2	14312.3	15309.3	11263.5
Luxembourg	18354.2	22336.5	24042.5	27911.7
Sweden	2967.5	3341.8	3034.2	3533.6
Belgium	2963.7	3335.1	1982.3	2353.1
Spain	1279.1	1941.0	4820.5	11764.2
Other EU (4)	4205.3	5286.9	4839.4	7141.0
Switzerland	18481.9	21872.7	20115.7	23446.6
Liechtenstein	1824.8	2105.9	1975.2	2330.7
Japan	2991.2	3595.2	3419.1	3967.1
Argentina	165.2	257.4	246.8	288.5
Brazil	78.8	128.7	184.2	320.2
Other	7806.0	9328.5	8747.3	10430.8
T O T A L	164,816.0	200,379.4	201,318.8	252,383.4

Table 3b: Stock Of Foreign Direct Investment In Italy by Major Investors; Year End 2003-2006 (Percentage of Total)

	2003	2004	2005	2006
United States	11.8	11.2	10.7	10.2
EU	69.2	70.2	72.1	73.6
France	12.9	12.3	12.7	14.7
Netherlands	16.3	19.5	19.9	21.5

United Kingdom	13.5	13.3	12.6	12.1
Germany	8.4	7.1	7.6	4.5
Luxembourg	11.1	11.1	11.9	11.1
Sweden	1.8	1.7	1.5	1.4
Belgium	1.8	1.7	1.0	0.9
Spain	0.8	1.0	2.4	4.7
Other EU (3)	2.6	2.6	2.4	2.7
Switzerland	11.2	10.9	10.0	9.3
Liechtenstein	1.1	1.1	1.0	0.9
Japan	1.8	1.8	1.7	1.6
Argentina	0.1	0.1	0.1	0.1
Brazil	0.0	0.1	0.1	0.1
Other	4.8	4.6	4.3	4.2
T O T A L	100.0	100.0	100.0	100.0

Table 4a: Stock Of Italian Direct Investment Abroad by Major Recipient; Year End 2003-2006 (USD Millions) (2)

	2003	2004	2005	2006
United States	18420.5	18851.2	19617.5	26118.6
EU	150010.0	182521.4	178145.2	217375.5
Netherlands	48455.6	63268.1	65081.5	89822.1
Luxembourg	21755.9	26363.3	25154.7	22632.4
France	20921.2	24344.5	23866.6	29574.4
United Kingdom	20270.3	24158.2	22617.5	24847.2
Germany	13065.1	15758.7	15004.7	18126.5
Spain	9871.1	10882.0	9866.6	12350.5
Belgium	4569.5	5308.3	4944.5	6254.3
Sweden	748.4	866.3	892.6	1087.0
Other EU (3)	10352.9	11572.4	10716.6	12681.1
Switzerland	10954.9	10559.0	10007.1	11411.1
Brazil	3473.1	3954.4	4935.1	5645.6
Argentina	2127.7	2178.3	2211.3	2308.3
Japan	1137.7	1249.9	1164.1	1196.2
Liechtenstein	169.0	194.4	175.9	200.3
Other	22342.9	24901.6	26460.5	41685.1
T O T A L	208635.8	244410.2	243982.3	305940.7

Table 4b: Stock of Italian Direct Investment Abroad by Major Recipient; Year End 2003-2006 (Percentage of Total)

	2003	2004	2005	2006
United States	8.8	7.7	8.0	8.5
EU	71.9	74.7	73.0	71.1
of which:				
Luxembourg	10.4	10.8	10.3	7.4
Netherlands	23.2	25.9	26.7	29.4
France	10.0	10.0	9.8	9.7
Germany	6.3	6.4	6.1	5.9
United Kingdom	9.7	9.9	9.3	8.1
Spain	4.7	4.5	4.0	4.0
Belgium	2.2	2.2	2.0	2.0
Sweden	0.4	0.4	0.4	0.4
Other EU (3)	5.0	4.7	4.4	4.2
Switzerland	5.4	4.3	4.1	3.7
Brazil	1.7	1.6	2.0	1.8
Argentina	1.0	0.9	0.9	0.8
Japan	0.5	0.5	0.5	0.4
Liechtenstein	0.1	0.1	0.1	0.1
Other	10.6	10.2	11.4	13.6
T O T A L	100.0	100.0	100.0	100.0

Table 5a: U.S. Investment in Italy by Economic Sector End-Year 2003-2006 (USD Millions) (2)

	2003	2004	2005	2006
Agriculture	36.3	40.2	41.3	46.1
Energy	545.7	627.6	576.2	678.5
Industry of which:	11812.3	13607.1	12958.7	15080.4
Machine	2635.8	2979.7	2792.2	3205.5
Transportation Equipment	782.2	902.5	830.0	971.0
Chemical	3162.7	3689.1	3447.5	4031.6
Food	1667.1	1920.3	2003.5	2321.5
Textiles	230.3	273.6	260.9	304.3
Minerals/Metals	395.5	451.9	433.3	502.0
Other	2938.7	3390.0	3191.3	3744.4
Services of which:	7063.8	8173.4	7874.8	10021.1
Trade	853.6	987.0	933.9	1097.5
Banking/ Insurance	3505.6	4008.2	3771.0	4789.2
Transportation/ Communication	582.0	666.5	636.4	1055.3
Other Services	2122.7	2511.7	2533.5	3079.1
T O T A L	19458.1	22448.3	21451.0	25826.1

Table 5b: U.S. Investment in Italy by Economic Sector End-Year 2003-2006 (Percentage of Total)

	2003	2004	2005	2006
Agriculture	0.2	0.2	0.2	0.2
Energy	2.8	2.8	2.7	2.6
Industry of which:	60.7	60.6	60.4	58.4
Machine	13.6	13.3	13.0	12.4
Transportation Equipment	4.0	4.0	3.9	3.8
Chemical	16.3	16.4	16.1	15.6
Food	8.6	8.6	9.3	9.0
Textiles	1.2	1.2	1.2	1.2
Minerals/ Metals	2.0	2.0	2.0	1.9
Other	15.0	15.1	14.9	14.5

Services of which:	36.3	36.4	36.7	38.8
Trade	4.4	4.4	4.3	4.2
Banking/ Insurance	18.0	17.9	17.6	18.5
Transportation/ Communication	3.0	3.0	3.0	4.1
Other Services	10.9	11.1	11.8	12.0
T O T A L	100.0	100.0	100.0	100.0

Table 6a: Italian Investment in the U.S. by Economic Sector -- End-Year 2003-2006 (USD Millions) (2)

	2003	2004	2005	2006
Agriculture	51.3	52.3	62.6	71.1

Energy	1816.0	1831.8	1877.2	2075.1
Industry of which:	7061.3	7254.8	7589.1	13080.4
Machine	2732.2	2777.2	2850.1	7910.4
Transportation Equipment	863.6	950.8	966.9	1001.3
Chemical	261.6	205.2	212.5	332.0
Food	264.1	273.6	289.3	304.3
Textiles	724.7	741.6	813.5	851.1
Minerals/ Metals	1541.9	1589.1	1637.5	1724.6
Other	673.3	717.3	819.4	956.7
Services of which:	9491.9	9719.6	10088.5	10892.0
Trade	1142.7	1177.4	1201.9	1241.1
Banking/ Insurance	4434.3	4615.7	4796.9	5035.6
Transportation/ Communication	274.1	232.0	242.0	278.0
Other	3640.8	3694.5	3847.7	4337.3
T O T A L	18420.5	18858.5	19617.5	26118.6

Table 6b: Italian Investment in the U.S. by Economic Sector -- End-Year 2003-2006 (Percentage of Total)

	2003	2004	2005	2006
Agriculture	0.3	0.3	0.3	0.3
Energy	9.9	9.9	9.6	7.9
Industry of which:	38.8	38.3	38.7	50.1
Machine	14.3	14.8	14.5	30.3
Transportation Equipment	4.5	4.7	4.9	3.8
Chemical	2.9	1.4	1.1	1.3
Food	1.4	1.4	1.5	1.2
Textiles	3.8	3.9	4.2	3.3
Minerals/ Metals	8.3	8.4	8.3	6.6
Other	3.6	3.7	4.2	3.6
Services of which:	51.0	51.5	51.4	41.7
Trade	4.0	6.2	6.1	4.8
Banking/ Insurance	24.0	24.1	24.5	19.3
Transportation/ Communication	2.6	1.5	1.2	1.1
Other	20.4	19.7	19.6	16.5
T O T A L	100.0	100.0	100.0	100.0

Table 7: Direct Investment by Origin and Destination End-Year 2006 (USD Millions) (4)

	Foreign Investment in Italy	Italian Investment Abroad	Net Italian Position
EU of which:	185773.4	217375.5	31602.1
United Kingdom	30461.1	24847.2	-5614.0
Netherlands	54304.3	89822.1	35517.8
Germany	11263.5	18126.5	6863.0

France	37040.8	29574.4	-7466.4
Spain	11764.2	12350.5	586.3
Luxembourg	27911.7	22632.4	-5279.3
Belgium	2353.1	6254.3	3901.2
Sweden	3533.6	1087.0	-2446.6
Other (3)	7141.0	12681.2	5540.2
Non-EU	66610.0	88565.2	21955.2
of which:			
USA	25826.1	26118.6	292.5
Switzerland	23446.6	11411.1	-12035.6
Liechtenstein	2330.7	200.3	-2130.4
Japan	3967.1	1196.3	-2770.8
Canada	940.7	1370.2	429.5
Argentina	288.5	2308.3	2019.8
Brazil	320.2	5645.6	5325.4
Other	9490.1	40314.9	30824.8
T O T A L	252383.4	305940.7	53557.3

(1) Annual net investment flow data compiled by Embassy Economic Section, based on Bank of Italy data and converted at the following end-year exchange rates:

	2003	2004	2005	2006
Euro/Dollar	0.894	0.805	0.805	0.796

Net = New Investment Less Disinvestment. The volatility and huge changes from year to year in some sections can be explained in part by the fact that listed data are "Net": New Investment Minus Disinvestment.

(2) Compiled by the Economic Section of the Embassy based on Bank of Italy data and converted at the following end year exchange rates:

	2003	2004	2005	2006
Euro/Dollar	0.799	0.746	0.847	0.759

(3) Austria, Denmark, Finland, Portugal, Greece, Ireland (other EU 25 countries), plus Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

(4) Original data in euro and converted at the end-2006 exchange rate of one dollar = 0.759 euro.

Sources: Bank Of Italy Annual Report 2006.

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